B500-3.3-4

Board of Directors

Seventeenth Annual Study

Banks and Other Financial Institutions

1970

KORNHAUSER INTERNATIONAL

TABLE OF CONTENTS

1 Introduction

5 Summary of Findings

12 Statistical Tables

Participating Companies

Present Number of Board Members

Chairman Also CEO, CEO Also COO

13 Board Composition

14 Committees

15 Compensation

17 Committee Compensation

Additional Compensation Information

18 Board Practices and Policies

20 Worldwide Offices

KORN/FERRY INTERNATIONAL
SEVENTEENTH ANNUAL BOARD OF DIRECTORS STUDY OF BANKS AND OTHER FINANCIAL INSTITUTIONS

Introduction

Of the 426 corporations that responded to Korn/Ferry International's Seventeenth Annual Board of Directors Study, 14 percent were banks and other financial institutions. The chief executives of these companies, like their counterparts in other industries, are overwhelmingly satisfied with the performance of their directors and believe that a strong board gives their companies a significant strategic advantage. Chief executives of financial institutions particularly value the board's contributions in the areas of maximizing shareholder value, long-term corporate survival and management succession.

As in the past, however, banks and other financial institutions offer their directors the lowest compensation of any responding group, and also lag behind in certain kinds of benefits. Although they are more likely than other companies to have identified their next CEO, an indication of valuable foresight, they are less concerned with global business issues than are their counterparts in other industries.

Here are the areas of most significant difference between banking and financial respondents and the other participants in our survey:

Compensation

—As in the past, banks and other financial respondents lag behind other companies in the area of compensation. This year, the average compensation in the financial sector was nine percent below the average for all respondents.

—Although financial companies were more likely than respondents from other industries to compensate directors for committee participation (94 percent versus 87 percent) and were also more likely to compensate directors for serving on ad hoc committees, they paid the lowest per-meeting fee for committee services of any responding group.

—Eighty-seven percent of financial respondents believe that their outside directors are adequately compensated. Although this percentage has increased from last year's 80 percent, it is still among the lowest percentages of all responding groups.

Benefits

—The percentage of financial institutions offering pension/retirement benefits has increased to 26 percent from 13 percent five years ago; however, they are still among the least likely of all groups to offer such plans. However, banks and other financial companies are among the study's leaders in allowing outside directors to defer fees until after retirement.

—Ninety percent of financial company CEOs believe all directors should own company stock, but only 39 percent—a low for the study—favor providing stock options to outside directors. In contrast, 51 percent of all responding CEOs favor this benefit, which has been growing steadily in popularity in recent years.

Board Size and Composition

—Banks and other financial institutions have the largest boards, averaging 18 directors (compared with this year's all-industry average of 13).

—Eighty-seven percent of banks and other financial companies report that their board chairmen also act as chief executive officers. Only industrial companies with revenues over $5 billion have a higher incidence of this dual relationship (94 percent).

—As in the past, the boards of banks and other financial companies lead in representation of ethnic minorities. Forty-eight percent of financial companies seat directors who are also ethnic minorities, significantly more than the 32 percent of all survey participants who do so. Banks and other financial institutions most frequently recruit these directors from the ranks of academia, followed by senior executives and CEOs and COOs of other companies.

—Only two percent of the boards of banks and other financial institutions include investment bankers, compared with 23 percent for all respondents.

Board Selection

For the first time, banks and other financial institutions relied predominantly on the nominating committee—rather than recommendations by board chairmen and other members—to fill vacant board seats. Sixty percent of financial institutions expect a board vacancy in 1990, compared with the 49 percent who expected one last year. More than half perceive a problem in finding and attracting qualified directors, and 20 percent believe that the problem has increased since last year. Under these conditions, banks and other financial companies may find that they have to improve director compensation and benefit packages to remain competitive with other companies.

International Business Issues

—While 35 percent of all responding CEOs expect the 1992 unification of the European Economic Community to open new markets for their companies, only 20 percent of financial company CEOs agree with this statement.

—Similarly, only 44 percent of respondents from banks and other financial institutions (versus 52 percent of the total sample) expect the EEC unification to increase competition, and only 15 percent expect it to increase their need for executives based outside the United States (versus 31 percent for all respondents).

—Only 49 percent of financial respondents, among the lowest of all responding groups, believe that a director with international experience would be an asset to the board.

Some of these disparities raise troubling questions about the competitive position of banks and other financial institutions in an increasingly complex and global business environment.

A Board Agenda for the 1990s

Despite many differences, there are also many ways in which banks and other financial boards are similar to their counterparts elsewhere in corporate America. During the 17 years that Korn/Ferry International has been conducting its board of directors study, a number of trends have become evident. The responses of this year's banking and financial respondents indicate that they share in these developments, which will shape the concerns and procedures of boards of directors in the coming decade. Some of the most prominent themes:

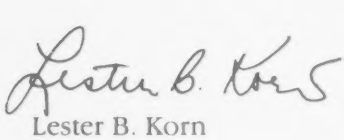
Trend One. Corporate survival has become a primary goal of the board. In a question asked for the first time this year, we sought CEOs' opinions about their board's responsibilities in "ensuring long-term corporate survival." Corporate survival is considered important or extremely important by 86 percent of financial companies, reflecting the critical nature of the issues facing U.S. companies.

Trend Two. Boards will increasingly protect the interests of nonshareholder constituents such as employees, communities and environmental groups. A third of the states already have enacted laws that require directors to consider such nonshareholders. While CEOs still overwhelmingly consider shareholders their primary constituency, outside directors have become much more sensitive to the needs of other groups.

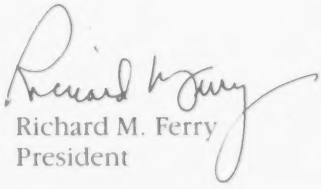
Trend Three. Directors will not be automatically reelected. One-third of all CEOs believe that outside directors should be formally evaluated, and 93 percent favor asking for the resignation of directors who do not measure up to their standards. At banks and other financial institutions, these figures rise to 38 percent and 98 percent, respectively. Over the next decade, as major shareholders take a more active role in corporate governance, proxy contests will also result in higher director turnover, especially at larger corporations. And more boards will seat directors among large investors, who are already seeking representation to safeguard their substantial investments.

Trend Four. An increasing number of directors will come from the ranks of retired CEOs. Directors of banks and other financial institutions continue to be drawn primarily from two sources: chief executive and chief operating officers of other companies (85 percent) and retired executives (69 percent). Given the pressures of these posts, retired executives will be a more important source of board members, especially since the talent available in the pool of retired executives will rise dramatically in coming years.

In the 17 years that we have been conducting our annual study, the business world has undergone a number of shifts and transformations. We hope that the following summary of findings will prove useful to banks and other financial institutions by offering a sense of how they compare with their peers.



Lester B. Korn
Chairman



Richard M. Ferry
President

September 1990

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings relate directly to banks and other financial institutions (Table 1). Where appropriate, comparisons are made with all the participants in our study.*

Size of Board (Table 2)

Banks and other financial institutions have an average of 18 directors on their board, up from last year's 17 and higher than any group responding to the study. However, this figure is less than the 20 directors reported five years ago. All participating companies averaged 13 directors in 1989.

When asked to estimate the size of the board in five years, 21 percent of the financial institution CEOs said they believe the number will decrease, while 27 percent felt it would increase and 52 percent estimate the number to be the same.

Inside Directors vs. Outside Directors (Table 2)

Banks and other financial institutions have an average of four inside and 14 outside directors. The average for all companies is three inside and 10 outside members.

Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

Along with the largest industrial firms, banks and other financial institutions once again report the highest percentage of chairmen who also act as chief executive officers. This dual relationship exists at 87 percent, up from 84 percent five years ago. On the other hand, financial respondents are among the least likely to have chief executive officers who are also chief operating officers. Twenty-one percent report this combination, down from 30 percent five years ago.

Eighty-six percent of banking and other financial services CEOs see no advantage to separating the chairman and CEO function. Overall, 77 percent of the responding CEOs saw no advantage.

Board Composition (Table 4)

Banks and other financial institutions draw heavily from the ranks of CEOs/COOs of other companies for their outside directors. Eighty-five

**This year, 426 corporations responded to our Annual Study. Of the 73 percent that are industrial and service corporations, 148 companies have revenues in excess of $1 billion. Banks and other financial institutions account for 14 percent, insurance companies for 10 percent and retailers for three percent.*

percent report seating at least one CEO or COO from another company. Retired executives of other companies serve on 69 percent of the banking boards, up from 61 percent in 1985.

Women now sit on 65 percent of all financial company boards, up from 61 percent five years ago. Although this figure is higher than the 59 percent reported this year by all boards, it is a dip from last year, when 73 percent of the banking boards included at least one woman director (Table 4A).

Female directors are drawn primarily from the ranks of CEOs/COOs of other companies (31 percent) and academicians (20 percent) (Table 4B).

Banks and other financial institutions include the highest percentage of directors who are also ethnic minorities. Forty-eight percent do so, about the same as last year and significantly higher than the 32 percent of all survey participants who seat minority directors. Five years ago, however, 52 percent of the banks and other financial institutions reported an ethnic minority board member (Table 4A).

Financial companies recruit most of their minority directors from academia (39 percent), followed by CEOs/COOs and senior executives of other companies (15 percent) (Table 4B).

Other groups frequently represented on the boards of banks and other financial institutions include academicians (57 percent), retired corporate officers (48 percent) and senior executives of other companies (44 percent). Financial boards, however, seat a low percentage of investment bankers. This year, only two percent include an investment banker down from 10 percent in 1985 and compared with 23 percent for all respondents this year (Table 4A).

Only 49 percent of financial respondents, among the lowest of all responding groups, think a director with international experience would be an asset to the board (Table 4C). In contrast, 65 percent of all respondents believe it would be helpful. Like all other respondents, banks and other financial institutions most often cited Europe as the area in which added expertise would be valuable, followed by Canada.

Seven percent of banks and other financial institutions currently have an international advisory board. Of those that do not, only two percent are considering establishing one.

Eighty-three percent of the participating financial institutions are satisfied with the present composition of their boards. Of the 17 percent who are not satisfied, 63 percent would like directors with additional financial expertise, while 50 percent desire mergers and acquisitions experience (Table 4D).

Committees (Table 5)

Among banks and other financial institutions, the most common standing committees continue to be the audit (98 percent), compensation/benefits (93 percent) and executive (87 percent) committees. Respondents also ranked these committees most important. The nominating committee continues to be especially popular among financial services institutions. Eighty-two percent report its use, up from 58 percent in 1985 and 60 percent last year. In comparison, 57 percent of all respondents have a nominating committee. Only 17 percent of the financial services boards, however, report having a finance committee (Table 5A).

As in the past, the executive and finance committees continue to be the largest. In 1989 they included an average of nine directors, up from seven in 1988. All committees range between five and nine directors. With the exception of the audit committee, which lost one outside director, and corporate ethics, which remained the same size, all committees have grown in the past five years. The audit committee is composed entirely of outside directors (Table 5B).

The executive committee met most frequently, averaging 12 meetings, up from five last year. The finance committee also met more often, from five meetings last year to seven in 1989 (Table 5C).

Sixty-four percent of the financial respondents report that the chairman of the board also acts as chairman of a committee, compared with 56 percent for all study participants. In 78 percent of the cases, board chairmen serve as the head of the executive committee.

Compensation (Table 6)

The annual plus per-meeting fee continues to be the most popular form of compensation for outside directors. This year 94 percent of banks and other financial institutions used this method, while six percent paid directors only an annual fee. None of this year's financial respondents gave directors only per-meeting fees.

Annual Plus Per-Meeting Fee (94 percent of the respondents)

For outside directors of banks and other financial institutions who were compensated on an annual plus per-meeting fee basis, the average annual compensation was $22,476. This figure, which excludes committee fees, is an increase of four percent over last year's average of $21,603. However, banks and other financial institutions still lag behind all other study respondents. This year, compensation was nine percent below the overall average.

The $22,476 total average compensation consists of an average annual fee of $14,412, up from $10,964 five years ago, and an average

per-meeting fee of $918, an increase from the $677 reported also in 1985. Directors at financial institutions with under $10 billion in assets reported an average compensation of $17,122, while those at the $10 billion-and-over companies averaged $24,676. This year, the average for financial companies in the upper quartile is $34,267, up from $30,948 last year.

Annual Fee Only (six percent of the respondents)

The average earnings of outside directors receiving an annual fee only declined for the second consecutive year, to $16,800. This figure is about the same reported by banks and other financial institutions in 1985. For all 1989 respondents, the average annual fee was $24,900.

Committee Compensation (Table 7)

Ninety-four percent of banks and other financial institutions provide additional compensation to their directors for committee participation, up from 90 percent last year and compared with 87 percent for all respondents. Seventy-five percent of the financial firms pay an extra stipend for chairing a committee, compared with 56 percent of all respondents. As in 1988, financial institutions paid the lowest per-meeting fees for committee service.

Seventy-seven percent of directors at banks and other financial institutions receive compensation for serving on special ad hoc committees, a high for the study.

Total Annual Compensation

Including committee fees, the average total compensation paid to outside directors of banks and other financial institutions was $27,331, up four percent from last year's $26,245 and compared with $29,863 for all respondents. Directors at banks and other financial institutions with less than $10 billion in assets earned an average of $20,391, while financial institutions with more than $10 billion in assets paid an average of $31,010.

The average for financial directors in the upper quartile was $41,013, up from $39,786 last year and compared with this year's overall average of $45,200.

Additional Compensation Information (Table 8)

The highest paid financial directors receive an average compensation of $33,682 for all board services exclusive of any consulting arrangement, up slightly from $32,140 last year.

The average upper quartile compensation for financial respondents is $51,468, compared with $55,168 for all respondents (Table 8A).

Eighty percent of banks and other financial institutions compensate their outside directors for teleconference calls, up from 71 percent last

year and 60 percent the previous year. For all participants, the figure was 74 percent. Financial services companies paid directors an average $754 per call.

Thirty-six percent of the financial respondents increased directors' compensation, up only slightly from 34 percent last year. Fees rose an average of $3,600 for the annual retainer and $316 for per-meeting fees, compared with last year's total compensation increase of $4,099.

Eighty-seven percent of financial respondents believe that their outside directors are adequately compensated. Although this is up from 80 percent last year, it is among the lowest percentages of all responding groups.

Benefits

Along with the largest industrial and service firms, banks and other financial institutions continue to lead in allowing outside directors to defer board fees until after retirement. Eighty-two percent offered this option, considerably more than the 67 percent of all respondents who did so. In both 1988 and 1985, 76 percent of the financial institutions allowed their outside directors to defer board fees.

Twenty-six percent of financial institutions have a program that provides retirement benefits, up substantially from the 13 percent that offered this option five years ago. However, along with retailers, banks and other financial institutions are among the least likely of all respondent groups to offer a pension/retirement income plan.

Fifteen percent of the banking respondents provided stock options for their outside directors, up from 11 percent in 1988. Thirty-nine percent of financial CEOs favor offering such options, compared with the average of 51 percent of all responding chief executive officers who approve of this benefit.

Other benefits commonly included are travel expense reimbursement (89 percent), matching educational gifts (41 percent) and accident insurance (28 percent). All financial institutions provided director liability insurance, up from last year's 93 percent (Table 8B).

Stock Ownership

Ninety percent of the participating financial institutions believe that all directors should own some company stock, up from 82 percent both last year and five years ago, and about the same as for all respondents. The average minimum number indicated was 608 shares.

At 85 percent of banks and other financial companies, all outside directors own company stock, compared with the overall average of 74 percent.

Liability Insurance

This year, banks and other financial institutions universally offered directors' liability insurance, up from 93 percent last year. Only 12 percent of all financial corporations reported that directors' liability insurance premiums increased for policies renewed in 1989. This percentage continues to decline, from 78 percent five years ago, 64 percent two years ago and 33 percent in 1988. However, the average increase of 129 percent, compared with the overall average of 41 percent, was higher than for any other responding group. Five years ago, the average premium for financial institutions increased by 271 percent.

Ninety-two percent of the financial boards have passed a measure to limit liability, up from the 89 percent last year.

Board Practices and Policies (Table 9)

The boards of banks and other financial institutions averaged nine regular meetings in 1989, the same as for all respondents. In 94 percent of the cases, the chairman determined the agenda for board meetings.

Outside directors of financial institutions devoted an average of 87 hours to board-related business this year, fewer than both the average of 101 reported last year and this year's overall average of 94 hours. The upper quartile average for banks and other financial institutions was 154 hours (Table 9A). Chairmen of financial institutions devoted an average of 147 hours to board-related business, down from 161 hours in 1988.

Based on reported compensation data, directors of financial institutions received an hourly rate of $258, up considerably from last year's $214 and the $176 reported five years ago. With committee fees taken into account, the average hourly rate for outside directors of banks and other financial institutions rose to $314, up from $260 in 1988.

Thirty-six percent of the participating financial company CEOs occasionally confer with their directors outside board meetings. Thirty-four percent frequently confer with directors between meetings, while 30 percent do so on a regular basis. Topics include acquisitions (70 percent), financial issues (54 percent) and changes in senior management (52 percent).

Thirty-five percent of banks and other financial companies reported a board resignation during the past year, the same as reported in 1988. This figure is greater than the 25 percent for all responding companies in 1989, but below the 44 percent reported by financial institutions five years ago.

Of those directors who resigned in 1989, 18 percent cited time demands as the major reason, followed by retirement (12 percent).

Sixty-eight percent of the financial institutions have replaced or intend to replace all directors who retired or resigned during the past year, up from 55 percent last year.

Sixty percent of financial institutions expect a board vacancy in 1990, up sharply from the 46 percent reported by all respondents and considerably more than the 49 percent of financial institutions who expected such a vacancy in 1988. For the first time, banks and other financial institutions relied predominantly on the nominating committee to fill vacant board seats. This year, 72 percent reported its use, up considerably from 51 percent last year and compared with 55 percent for respondents overall. Recommendations by board chairmen and other board members were cited by 70 percent of the financial company boards (Table 9B).

Seventeen percent of financial institutions, the lowest percentage of all responding groups, report that at least one prospective director declined an invitation to serve on their board in 1989. This is also the lowest percentage reported by banks and other financial institutions in the past five years. As in the past, time commitment was the primary reason cited for declining an invitation (67 percent), followed by a conflict of interest (44 percent) (Table 9C).

The average age of the financial CEO remains 56; the average age of outside directors is 55, down from 58 in 1988. In 1989, the average tenure of directors at financial institutions was 10 years, a dip from the 11 years reported last year.

Board Functions

Chief executive officers at banks and other financial institutions, like their counterparts at all responding companies, ranked maximizing shareholder value as the most important board function. Eighty percent of the financial firms rated this issue as extremely important, more than any other responding group. This board function was followed in importance by long-term corporate survival, cited by 59 percent. The issues of management succession and financial results were each mentioned by 57 percent of financial company CEOs.

CEOs of banks and other financial institutions are less concerned with quality of products and other services than with any other board issues. Only 13 percent of the banks consider this issue extremely important.

Although financial institution boards are also unconcerned with day-to-day operations (only two percent ranked this function as extremely important), only 48 percent rated the function of no importance, compared with the overall response of 64 percent.

TABLE 1—PARTICIPATING COMPANIES

Fifty-eight of America's major banks and financial institutions participated in our Seventeenth Annual Study.

Size (Assets)	Number of Financial Institutions	%
Under $10 billion	25	42.9%
$10 billion and over	33	57.1%
TOTAL	58	100.0%

Stock Exchange	Number of Financial Institutions	%
New York Stock Exchange	30	51.7%
Over-the-counter	26	44.8%
Other	2	3.5%
TOTAL	58	100.0%

TABLE 2—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Financial Institution	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $10 billion	3	15	18
$10 billion and over	4	14	18
Average	4	14	18

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	% Chairman/CEO	% CEO/COO
Yes	86.8%	21.2%
No	13.2%	78.8%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1985 Financial Institutions	1989 Financial Institutions	1989 All Companies Surveyed
CEO/COO (other companies)	na	85.2%	79.5%
Retired executive (other companies)	61.4%	68.5%	64.1%
Woman	61.4%	64.9%	59.1%
Academician	62.2%	57.4%	55.4%
Retired corporate officer	41.0%	48.1%	47.0%
Senior executive (other companies)	84.1%*	44.4%	39.5%
Attorney (does not provide legal services for the company)	32.5%	42.6%	33.5%
Ethnic minority member	51.8%	48.2%	31.6%
Former government official	31.3%	22.2%	27.7%
"Professional" director	24.1%	22.2%	27.0%
Attorney (provides legal services for the company)	42.2%	38.9%	25.8%
Major shareholder (not officer of the company)	25.3%	16.7%	24.1%
Investment banker	9.6%	1.9%	22.9%
Commercial banker	16.9%	11.1%	22.7%
Non-U.S. citizen	15.7%	9.3%	12.0%
International executive (U.S. citizen)	13.3%	7.4%	6.7%

FIVE-YEAR TREND

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	20.0%	38.5%
Senior executives (other companies)	14.3%	15.4%
CEOs/COOs (other companies)	31.4%	15.4%
Attorneys (do not provide legal services)	11.4%	11.5%
Former government officials	5.7%	7.7%
Retired corporate officers	5.7%	3.8%
"Professional" directors	5.7%	3.8%

**Not comparable. 1985 percentage included CEOs/COOs of other companies. This became a separate category in 1986.*

4C. Would a director with international experience be a valuable asset to your board?

	%
Yes	49.0%
No	51.0%
TOTAL	100.0%

4D. Are you satisfied with the present composition of the board?

	%
Yes	83.0%
No	17.0%
TOTAL	100.0%

If not, what kind of additional experience would you include?

	%
Finance	62.5%
Mergers/Acquisitions	50.0%
Marketing	37.5%
Industry specific	37.5%
Public relations	12.5%
Technology	12.5%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	Financial Institutions	All Companies Surveyed
Audit	98.1%	96.6%
Compensation/Benefits	92.6%	91.1%
Executive	87.0%	73.5%
Nominating	81.5%	57.3%
Finance	16.7%	33.5%
Public affairs	20.4%	11.3%
Corporate ethics	5.6%	7.0%

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	6	6
Compensation/Benefits	2	5	7
Executive	3	6	9
Nominating	2	5	7
Finance	2	7	9
Public affairs	2	5	7
Corporate ethics	1	4	5

5C. How many committee meetings were held during the past 12 months?

Committee	1985 Average Number of Meetings	1988 Average Number of Meetings	1989 Average Number of Meetings
Audit	4	5	5
Compensation/Benefits	4	4	4
Executive	7	5	12
Nominating	2	2	2
Finance	5	5	7
Public affairs	2	3	3
Corporate ethics	2	3	3

FIVE-YEAR TREND

TABLE 6—COMPENSATION

How are board members compensated?
Annual Plus Per-Meeting Fee (94 percent of respondents)

Annual Fee Amount	%
Under $5,000	2.0%
$5,000–$ 6,999	8.2%
$7,000–$10,999	14.4%
$11,000–$13,999	22.4%
$14,000–$16,999	20.4%
$17,000–$19,999	10.2%
$20,000–$24,999	16.3%
$25,000 and over	6.1%
TOTAL	100.0%
Average Annual Fee	$14,412

PLUS

Amount Per Meeting	%
Under $250	2.0%
$250–$499	2.0%
$500–$599	20.4%
$600–$799	28.7%
$800–$999	12.2%
$1,000–$1,299	24.5%
$1,300 and over	10.2%
TOTAL	100.0%
Average Per-Meeting Fee	$918

EQUALS

Total Annual Compensation	%
Under $11,000	8.2%
$11,000–$13,999	2.1%
$14,000–$16,999	16.3%
$17,000–$19,999	12.2%
$20,000–$24,999	30.6%
$25,000–$29,999	12.2%
$30,000 and over	18.4%
TOTAL	100.0%
Average Total Annual Compensation	$22,476

Annual Plus Per-Meeting Fee

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks and other financial institutions	$22,476	$34,267
Insurance companies	$24,423	$33,500
Retailers	$24,139	$28,975
Service companies	$23,628	$33,565
Industrials		
Under $400 million	$21,081	$31,447
$400 million–$599 million	$22,643	$34,833
$600 million–$999 million	$23,122	$33,083
$1 billion–$2.999 billion	$26,021	$35,477
$3 billion–$4.999 billion	$28,678	$35,856
$5 billion and over	$32,512	$42,300
Average	$24,729	$35,426

TABLE 7—COMMITTEE COMPENSATION

What is the average total annual compensation, including committee fees, for outside directors?

Type and Size of Company	1988 Average	1989 Average	1989 Upper Quartile Average
Banks and other financial institutions	$26,245	$27,331	$41,013
Insurance companies	$26,342	$31,300	$49,625
Retailers	$32,473	$30,042	$34,000
Service companies	$30,188	$29,816	$45,741
Industrials			
Under $400 million	$18,370	$23,946	$37,165
$400 million–$599 million	$20,193	$26,490	$38,600
$600 million–$999 million	$23,670	$25,978	$35,707
$1 billion–$2.999 billion	$28,052	$30,048	$42,751
$3 billion–$4.999 billion	$34,750	$34,597	$44,356
$5 billion and over	$40,597	$41,200	$58,183
Average	$28,219	$29,863	$45,200

TABLE 8—ADDITIONAL COMPENSATION INFORMATION

8A. How much did the highest paid director receive in 1989 for all board services exclusive of any consulting arrangement?

Amount	%
Under $17,000	6.5%
$17,000–$24,999	13.1%
$25,000–$29,999	15.2%
$30,000–$39,999	41.3%
$40,000–$49,999	15.2%
$50,000 and over	8.7%
TOTAL	100.0%
Average	$33,682

Highest paid director

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks and other financial institutions	$33,682	$51,468
Insurance companies	$37,621	$66,043
Retailers	$31,836	$35,650
Service companies	$32,616	$52,918
Industrials		
Under $400 million	$25,943	$41,769
$400 million–$599 million	$31,502	$45,833
$600 million–$999 million	$28,732	$43,136
$1 billion–$2.999 billion	$35,150	$53,242
$3 billion–$4.999 billion	$38,326	$48,106
$5 billion and over	$51,733	$83,783
Average	$34,382	$55,168

8B. What benefits are included in the compensation plan for outside directors?

	% 1988	% 1989
Directors' liability insurance	93.1%	100.0%
Travel expense reimbursement	91.7%	88.9%
Deferral of board fees until retirement	76.4%	81.5%
Matching educational gifts program	38.9%	40.7%
Accident insurance	26.4%	27.8%
Pension/Retirement income plan	26.4%	25.9%
Travel expenses for spouse	16.7%	14.8%
Life insurance	12.5%	14.8%
Stock options	11.1%	14.8%
Medical insurance	8.3%	11.1%

TABLE 9—BOARD PRACTICES AND POLICIES

9A. How many hours (estimated) do directors spend annually on board activities, meetings and preparation?

Number of Hours	%
Under 40	19.1%
40–70	19.1%
71–100	27.7%
101–130	21.3%
131–160	4.3%
161–190	2.1%
191 and over	6.4%
TOTAL	100.0%
Average	87 hours

Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Banks and other financial institutions	87	154
Insurance companies	78	129
Retailers	84	145
Service companies	101	190
Industrials		
Under $400 million	80	129
$400 million–$599 million	96	177
$600 million–$999 million	92	171
$1 billion–$2.999 billion	94	193
$3 billion–$4.999 billion	109	160
$5 billion and over	109	164
Average	94	166

9B. How are outside directors located for the board?

	% 1988	% 1989
Nominating committee	51.4%	72.2%
Recommendation by chairman	88.9%	70.4%
Recommendation by board members	75.0%	70.4%
Recommendation by other corporate officers	36.1%	31.5%
Referral from executive acquaintances	2.8%	9.3%

9C. Have any prospective directors declined an invitation to serve on the board during the past year?

	%
Yes	17.0%
No	83.0%
TOTAL	100.0%

If yes, what are the predominant reasons?

	%
Time commitment	66.7%
Conflict of interest	44.4%
On too many boards	22.2%

KORN/FERRY INTERNATIONAL WORLDWIDE OFFICES

New York
Executive Offices
237 Park Avenue
New York, New York 10017 U.S.A.
Telephone: (212) 687-1834

Los Angeles
Corporate Offices
1800 Century Park East
Los Angeles, California 90067 U.S.A.
Telephone: (213) 879-1834

911 Wilshire Boulevard
Los Angeles, California 90017 U.S.A.
Telephone: (213) 624-6600

Amsterdam
World Trade Center
Strawinskylaan 545
1077 XX Amsterdam
The Netherlands
Telephone: 31-(20)-664.13.01

Atlanta
Harris Tower
233 Peachtree Street N.E.
Atlanta, Georgia 30303 U.S.A.
Telephone: (404) 577-7542

Boston
101 Federal Street
Boston, Massachusetts 02110 U.S.A.
Telephone: (617) 345-0200

Brussels
523 Avenue Louise, Box 25
B-1050 Brussels, Belgium
Telephone: 32-(2) 640.32.40

Buenos Aires
Avenida Quintana No. 585, Piso 6
1129 Buenos Aires, Argentina
Telephone: (541) 804-0046

Caracas
Multicentro Empresarial Del Este
Avenida Francisco De Miranda, Chacao
Conjunto Miranda, Nucleo B
Caracas, 1060, Venezuela
Telephone: (58-2) 32-46-71

Chicago
120 South Riverside Plaza
Chicago, Illinois 60606 U.S.A.
Telephone: (312) 726-1841

Cleveland
Eaton Center, 1111 Superior Avenue
Cleveland, Ohio 44114 U.S.A.
Telephone: (216) 861-5656

Dallas
3950 Lincoln Plaza, 500 North Akard St.
Dallas, Texas 75201 U.S.A.
Telephone: (214) 954-1834

Denver
1600 Broadway
Denver, Colorado 80202 U.S.A.
Telephone: (303) 861-1850

Frankfurt
Bockenheimer Landstrasse 42
Triton Haus, 6000 Frankfurt/Main 1
West Germany
Telephone: 49-(69) 728357

Geneva
61, rue du Rhone
1204 Geneva, Switzerland
Telephone: 41-(22) 20.20.71

Hong Kong
808 Gloucester Tower,
The Landmark, Central, Hong Kong
Telephone: (852)-5-215-450

Houston
1100 Milam Building
Houston, Texas 77002 U.S.A.
Telephone: (713) 651-1834

Kuala Lumpur
UBN Tower, 10 Jalan P. Ramlee
Kuala Lumpur 50250, Malaysia
Telephone: 60-3-238-1655

London
Pepys House
12 Buckingham Street
London, WC2N 6DF, England
Telephone: 44-(71) 930-4334

Madrid
Calle Felipe IV, No. 9
Madrid 14, Spain
Telephone: 34-(1) 532-8624

Melbourne
80 Collins Street
Melbourne, Victoria 3000, Australia
Telephone: 61-3-654 4588

Worldwide Offices (continued)

Mexico City
Montes Urales 641
Lomas De Chapultepec
Delegacion Miguel Hidalgo
11000 Mexico, D.F.
Telephone: 52-5-202-0046

Milan
Piazzeta M. Bossi 1
20121 Milan, Italy
Telephone: 39 (2) 72-022-550

Minneapolis
2508 IDS Center
80 South Eighth Street
Minneapolis, Minnesota 55402 U.S.A.
Telephone: (612) 333-1834

Monterrey
Daniel Zambrano 525
Col. Chepe Vera
Monterrey, Nuevo Leon, Mexico
Telephone: (52-83) 48-43-55

Newport Beach
1300 Dove Street
Newport Beach, California 92660 U.S.A.
Telephone: (714) 851-1834

Palo Alto
1290 Page Mill Road
Palo Alto, California 94304 U.S.A.
Telephone: (415) 856-2611

Paris
30 Avenue George V
75008 Paris, France
Telephone: 33-(1) 47-20-3500

Rome
Via Nicolo Tartaglia 11
00197 Rome, Italy
Telephone: 39-(6) 85 87 090

San Francisco
The Transamerica Pyramid
600 Montgomery Street
San Francisco, California 94111 U.S.A.
Telephone: (415) 956-1834

San Juan
431 Ponce de Leon Avenue
Hato Rey, Puerto Rico 00917
Telephone: (809) 250-0707

São Paulo
Avenida Indianapolis 80
04062 São Paulo, SP, Brasil
Telephone: (55-11) 549-7133

Seattle
1201 Third Avenue
Seattle, Washington 98101 U.S.A.
Telephone: (206) 621-1834

Singapore
29-05 Shell Tower
50 Raffles Place, Singapore 0104
Telephone: 65-224-3111

Stamford
One Landmark Square
Stamford, Connecticut 06901 U.S.A.
Telephone: (203) 359-3350

Sydney
Kyle House, 31 Macquarie Place
Sydney, New South Wales
2000 Australia
Telephone: 61-2-247 7941

Tokyo
AIU Building
1-3 Marunouchi 1-Chome
Chiyoda-Ku, Tokyo 100, Japan
Telephone: (813) 211-6851

Toronto
Scotia Plaza
40 King Street West
Toronto, Ontario M5H 3YZ, Canada
Telephone: (416) 366-1300

Washington, D.C.
Presidential Plaza
900 19th Street, N.W.
Washington, D.C. 20006 U.S.A.
Telephone: (202) 822-9444

Zurich
Talstrasse 83
8001 Zurich, Switzerland
Telephone: 41-(1) 211.26.16

KORN/FERRY INTERNATIONAL
Executive Offices
237 Park Avenue
New York, New York 10017
(212) 687-1834